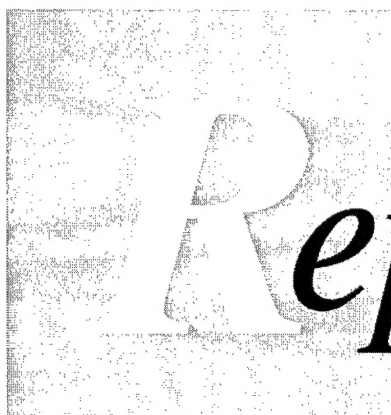




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Report

ALLEGATIONS TO THE DEFENSE HOTLINE
CONCERNING MANAGEMENT OF OBSOLETE REPARABLE ITEMS

Report No. D-2000-185

September 7, 2000

Office of the Inspector General
Department of Defense

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Acronyms

DIIP	Defense Inactive Item Program
NAVICP	Naval Inventory Control Point
NSN	National Stock Number



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2885

September 7, 2000

MEMORANDUM FOR NAVAL INSPECTOR GENERAL

SUBJECT: Audit Report on Allegations to the Defense Hotline Concerning
Management of Obsolete Repairable Items (Report No. D-2000-185)

We are providing this audit report for review and comment. We conducted the audit in response to a Defense Hotline allegation. This is the first in a series of reports about management of obsolete items. We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations and unresolved issues be resolved promptly. Comments on the draft of this report conformed to the requirements of the directive for Recommendations 1. and 2. However, the Navy did not provide comments on the \$6.8 million in potential monetary benefits and did not quantify the monetary benefits for actions completed August 31, 2000. Therefore, we request that the Navy provide additional comments by November 7, 2000.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Tilghman A. Schraden at (703) 604-9186 (DSN 664-9186) (tschraden@dodig.osd.mil) or Mr. Terry Wing at (215) 737-3883 (DSN 444-3883) (twing@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2000-185

(Project No. D1999LD-0028)

(Formerly Project No. 9LD-8012)

September 7, 2000

Allegations to the Defense Hotline Concerning Management of Obsolete Reparable Items

Executive Summary

Introduction. We performed this audit in response to a Defense Hotline allegation concerning management of obsolete reparable items by the Naval Inventory Control Point (NAVICP) Philadelphia. The allegation stated that NAVICP Philadelphia weapon system files contained an estimated 20,000 obsolete reparable national stock numbers (NSNs). The allegation further stated that approximately \$150 million of costs would be avoided each year if those NSNs were removed from the weapon system files.

An NSN is considered obsolete if there are no current or future requirements anticipated by any registered user of the NSN. Obsolete NSNs that are not deleted from the DoD supply system needlessly consume cataloging and weapon system files, personnel resources, and warehouse space.

Objective. Our overall objective was to evaluate the processes that the Military Departments and the Defense Logistics Agency used to identify and delete items in weapon system files that had obsolete NSNs. This report, the first in a series, addresses the Defense Hotline allegation concerning obsolete reparable NSNs managed by NAVICP Philadelphia. We also included a review of the management control program as it applied to the audit objective. The next report will address obsolete NSNs managed by the Defense Logistics Agency.

Results. The allegation was substantiated, but the cost avoidance was not. The weapon system files managed by NAVICP Philadelphia contained obsolete reparable NSNs, but the estimated annual cost of \$150 million to maintain those NSNs was significantly overstated. We identified 1,723 obsolete reparable NSNs (532 of the 1,723 NSNs had inventory valued at approximately \$7.3 million) and 180 obsolete weapon system applications associated with 89 obsolete aircraft. However, we did not perform a detailed review of the 180 obsolete weapon system applications to identify all associated NSNs. Therefore, we believe the number of obsolete NSNs in the files is significantly greater. As a result, we calculate DoD could avoid a minimum of

\$6.8 million of costs during the 6-year Future Years Defense Program, FYs 2001 through 2006, by eliminating unnecessary cataloging and weapon system files and by reducing inventory. The full extent of monetary benefits will be quantifiable after management identifies and takes action to delete all obsolete NSNs, obsolete applications, and obsolete aircraft, as well as disposing of obsolete inventory. For details of the audit results, see the Finding section of this report. See Appendix A for a discussion of the management control program.

Summary of Recommendations. We recommend that the Commander, NAVICP, ensure that NAVICP Philadelphia establish controls to promptly identify obsolete NSNs, obsolete applications, and obsolete aircraft; delete the appropriate weapon system files; and dispose of all obsolete inventory.

Management Comments. The Deputy Assistant Secretary of the Navy (Planning, Programming and Resources) concurred with the finding and recommendations, stating that guidance will be updated to ensure that obsolete aircraft are identified and removed from weapon system files and that obsolete applications identified by the audit will be purged from the weapon system files. The Deputy Assistant Secretary further stated that the management actions would be completed by August 31, 2000. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

Audit Response. Navy comments were responsive to the recommendations. However, the Navy did not comment on the potential monetary benefits from eliminating unnecessary cataloging and weapon system files and from reducing inventory. Therefore, we request that the Navy provide additional comments on the final report by November 7, 2000.

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Background

This audit was performed in response to allegations to the Defense Hotline concerning management of obsolete reparable items by the Naval Inventory Control Point (NAVICP) Philadelphia. The allegation stated that NAVICP weapon system files contained an estimated 20,000 obsolete reparable national stock numbers (NSNs). The allegation further stated that approximately \$150 million of costs would be avoided each year if those NSNs were removed from the weapon system files.

The NAVICP was established in 1995 with the merging of the Aviation Supply Office, Philadelphia, Pennsylvania, and the Ships Parts Control Center, Mechanicsburg, Pennsylvania. The mission of the NAVICP is to provide program and supply support for weapon systems that keep naval forces mission ready. The mission of the NAVICP is carried out by a single command organization operating in two locations. The NAVICP in Philadelphia manages aviation NSNs and the NAVICP in Mechanicsburg manages ship NSNs. This report addresses only NAVICP Philadelphia.

As an inventory control point, the NAVICP is assigned the primary responsibility for materiel management for a group of items used by either a particular Service or by DoD as a whole. Materiel management responsibilities include cataloging,¹ requirements computation, procurement direction, distribution management, and disposal direction. In FY 1999, NAVICP Philadelphia procured materiel valued at about \$664.2 million and reported inventory valued at about \$12.3 billion.

Objective

Our overall objective was to evaluate the processes that the Military Departments and the Defense Logistics Agency used to identify and delete items in weapon system files that had obsolete NSNs. This report, the first in a series, addresses the Defense Hotline allegation concerning obsolete reparable NSNs managed by NAVICP Philadelphia. We also included a review of the management control program as it applied to the audit objective. The next report will address obsolete NSNs managed by the Defense Logistics Agency. During our audit, the Air Force Inspection Agency began a management review to assess the effectiveness of purging obsolete aircraft major end items and their

¹The act of naming, classifying, describing and numbering each item repetitively used, purchased, stocked, or distributed so as to distinguish each item from every other item. Also included is the maintenance of information related to the item and the dissemination of that information to item users.

associated items from Air Force inventory. A final report on that review is scheduled to be issued in September 2000. See Appendix A for a discussion of our audit scope and methodology, our review of the management control program, and prior coverage.

Obsolete National Stock Numbers

The allegation was substantiated, but the cost avoidance was not. NAVICP weapon system files contained obsolete reparable NSNs, but the estimated annual cost of \$150 million to maintain obsolete NSNs was greatly overstated. We identified 1,723 obsolete reparable NSNs (532 of the 1,723 NSNs had inventory valued at approximately \$7.3 million) and 180 obsolete weapon system applications associated with 89 obsolete aircraft. However, we did not perform a detailed review of the 180 obsolete weapon system applications to identify all associated NSNs. Therefore, we believe the number of obsolete NSNs in the files is significantly greater. We also identified an additional 21,271 NSNs associated with both active and obsolete applications; the weapon system files contained 36,336 obsolete records associated with the 180 obsolete weapon system applications. Obsolete NSNs and associated records were in the weapon system files because management controls were not in place to ensure that obsolete NSNs and application codes were promptly identified and deleted from NAVICP files. As a result, we calculate DoD could avoid a minimum of \$6.8 million of costs during the 6-year Future Years Defense Program, FYs 2001 through 2006, by eliminating unnecessary cataloging and weapon system files and by reducing inventory. The full extent of monetary benefits will be quantifiable after management identifies and takes action to delete all obsolete NSNs, obsolete applications, and obsolete aircraft, as well as disposing of obsolete inventory.

Criteria and Procedures

DoD Guidance. DoD Manual 4140.32-M, "Defense Inactive Item Program (DIIP)," August 1992, states that items no longer needed to support the mission of DoD organizations, other Federal agencies, or the International Logistics Program, needlessly consume machine time, personnel resources, and warehouse space with serious effect on the total supply system. DoD managers at every level are expected to place serious and continuing emphasis on the purging of unneeded items from the materiel inventory and active catalog files.

NAVICP Procedures. "NAVICP DIIP Deskguide," April 1998, provides detailed procedures and guidance for NAVICP implementation of DoD Manual 4140.32-M. DoD Manual 4140.32-M requires inventory control points to run the DIIP annually to eliminate all obsolete items from the system. An NSN is considered obsolete if there are no current or future requirements anticipated by any registered user of the NSN. Inventory control points identify

and select potentially obsolete NSNs and refer those NSNs to registered users for review. Users are required to review the NSNs and notify the inventory control points whether or not the NSNs should be deleted.

NAVICP personnel advised us that they did not run the DIIP as specified in DoD Manual 4140.32-M for NAVICP-managed items. Instead of running the DIIP, the NAVICP used a series of other programs and methods to identify and purge obsolete items. The programs and methods included an obsolete data purge, program data expansion, file maintenance, and diagnostic reviews.

One of the methods used to identify obsolete weapon systems was a disposal directive from the Naval Air Systems Command. The Naval Air Systems Command is required to provide a disposal directive to the NAVICP when a weapon system is determined to be obsolete. After receipt of a disposal directive, the NAVICP is required to identify unique NSNs associated with the weapon system and take action to delete the NSNs.

Application Codes. NAVICP Philadelphia assigns an application code to each end item aircraft, engine, and support equipment it manages, as well as to all reparable NSNs (assemblies and sub-assemblies) that support those items. The code provides visibility of all NSNs, to include consumables, associated with a particular end item and reparable NSN. An NSN can be assigned multiple application codes if it is associated with multiple end items or reparable NSNs.

We obtained an extract, dated March 1999, from the NAVICP Philadelphia weapon system files. The extract contained 767,583 records for 133,996 reparable NSNs and 7,938 applications associated with those NSNs. A record was maintained for each NSN, and for each application code assigned to the NSN. For example, a single NSN that has been assigned six application codes has six records in the weapon system files. Table 1 shows the number of NSNs in relation to how many applications the NSN was associated with.

Table 1. Applications and NSNs

<u>Applications and NSNs</u>	<u>Number of NSNs</u>
1	39,603
2-5	61,176
6-10	18,558
11-25	8,792
26-49	4,241
50-99	1,350
100 and over	<u>276</u>
Total	133,996

NSNs and Applications

The audit substantiated the Defense Hotline allegation that the NAVICP weapon system files contained obsolete reparable NSNs. We identified 1,723 obsolete reparable NSNs and 180 obsolete applications associated with 89 aircraft. We also identified an additional 21,271 NSNs that were used on both active and obsolete applications; the weapon system files contained 36,336 obsolete records associated with the 180 obsolete applications.

NSNs Provided in the Defense Hotline Allegation. The Defense Hotline allegation included a list of 200 NSNs that the complainant identified as obsolete. The complainant advised us that the list of the NSNs was provided to senior Navy management in March 1997.

Of the 200 NSNs, 78 (39 percent) were obsolete. The 78 NSNs were associated with 72 weapon systems. NAVICP supply records showed that 23 of the 78 NSNs had inventory, valued at about \$200,000. One of the 78 obsolete NSNs was as follows.

NSN 5831-00-068-6535, console assembly, was used on the KA-3B aircraft and had a unit price of \$14,450. The item is coded in the Federal Logistics Information System as centrally managed, stocked, and issued. As of April 25, 2000, there were two units, valued at \$28,900, in inventory. NAVICP supply records showed that there were no recorded demands for the NSN for at least 5 years.

Obsolete Aircraft. NAVICP Philadelphia personnel provided us a June 1995 planning memorandum prepared by the NAVICP Materiel Budget Department that showed the status of aircraft. There were 331 aircraft listed in the memorandum and the statuses provided included aircraft used by the Navy, aircraft used by another organization but supported by the NAVICP, aircraft to be retired within 2 years, and aircraft that were obsolete.

We discussed the memorandum with personnel from the NAVICP, Naval Air Systems Command weapon system program and international logistics offices, and the Office of the Chief of Naval Operations to verify the accuracy of the memorandum and to determine if any additional aircraft had become obsolete since the June 1995 memorandum. Those discussions identified a total of 89 aircraft as obsolete that were in contained in the weapon system files. There were 180 obsolete applications associated with the obsolete aircraft.

A comparison of the 180 obsolete applications with the weapon system file extract identified 1,645 obsolete NSNs associated with the obsolete applications. NAVICP supply records showed that 509 of the 1,645 NSNs had inventory, valued at \$7.1 million. One of the 180 obsolete applications was as follows.

A weapon system application for the C-118B aircraft, application code 1XC118B, was obsolete. The weapon system file extract showed that there were 139 obsolete NSNs that were unique to that application code. NAVICP supply records showed that 60 of the 139 NSNs had inventory, valued at approximately \$282,300.

NSNs Associated With Both Active and Obsolete Weapon System

Applications. Of the 767,583 records in the weapon system file extract, there were 93,914 NSNs and 726,909 records associated with both obsolete and active applications. A comparison of 180 obsolete application codes with the 726,909 records identified 21,271 NSNs associated with the obsolete applications and 36,336 records that contained obsolete application codes. No standards or data were available to estimate the costs to maintain the obsolete records; therefore, we were unable to quantify the costs related to cataloging, computer time, and personnel resources required to maintain the obsolete records.

Disposal Directives. NAVICP personnel advised us that disposal directives provide the authority to delete obsolete NSNs, obsolete applications, and obsolete aircraft from its weapon system files. The Naval Air Systems Command is responsible for issuing disposal directives to the NAVICP. The deletion of obsolete aircraft from the NAVICP files starts with the receipt of a disposal directive. No disposal directives were available for our review at NAVICP Philadelphia. We were unable to determine whether disposal directives were issued by the Naval Air Systems Command and not used by the NAVICP or whether the directives were not issued.

Costs of Maintaining Obsolete NSNs. The Defense Hotline allegation that approximately \$150 million of costs (\$7,500 times 20,000 NSNs) could be avoided each year if obsolete NSNs were removed from the NAVICP files was not substantiated. The Defense Hotline complainant provided no support for the estimate of maintenance costs and we could not verify the estimate.

"Naval Air Systems Command Level of Repair Analysis Default Data Guide," May 1999, estimates costs related to repair analyses. The Guide shows a recurring annual bin cost (to store inventory) of \$500 per NSN and a recurring annual cataloging cost of \$500 per NSN. Those cost estimates were provided by the NAVICP in 1999. Table 2 shows annual costs based the estimates.

Table 2. Annual Costs

	<u>Number of NSNs</u>	<u>Cost per NSN</u>	<u>Total</u>
Cataloging	1,723	\$500	\$ 861,500
Bin	532*	500	<u>266,000</u>
Total			\$1,127,500

* Number of the 1,723 obsolete NSNs that had inventory.

We calculated costs of about \$6.8 million could be avoided during the 6-year Future Years Defense Program, FYs 2001 through 2006, by removing the obsolete NSNs identified by this audit from the NAVICP files.

We did not do a detailed review of the 180 obsolete weapon system applications to identify all associated NSNs.² We believe the number of obsolete NSNs in the files is significantly greater and that the costs avoided will be significantly higher after the NAVICP takes action to identify and delete all obsolete NSNs associated with the obsolete applications. For example, one of the aircraft identified as obsolete was the EA-3B, but we did not identify any obsolete NSNs associated with that aircraft. However, NAVICP personnel identified 6,831 NSNs (5,588 consumable NSNs and 1,243 reparable NSNs) associated with the EA-3B aircraft. The 1,243 reparable NSNs identified by NAVICP personnel were outside our criteria of review. In addition, the weapon system file extract did not include NSNs directly tied to the 1,243 reparable NSNs. An analysis of just 12 of the 1,243 reparable NSNs identified about 340 NSNs tied directly to the 12 reparable NSNs. An analysis of just 1 of the 340 NSNs identified 55 NSNs tied directly to it.

NAVICP Philadelphia Actions

We commend NAVICP Philadelphia personnel for taking positive management actions during the audit. NAVICP Philadelphia personnel assisted us in identifying obsolete NSNs, obsolete applications, and obsolete aircraft. Additionally, they coordinated the results of our audit with the Office of the Chief of Naval Operations to obtain approval to delete the obsolete data from NAVICP weapon system files.

²We evaluated only reparable NSNs associated with one, two, or three of the 180 applications associated with the 89 aircraft. We did not evaluate any consumable NSNs. In addition, the file extract contained only NSNs directly associated with an application.

Management Comments on the Finding Discussion and Audit Response

Navy Comments. The Navy provided updated information on the value of materiel procured and the inventory reported by NAVICP Philadelphia. The Navy also provided clarification on the responsibilities of the Naval Air Systems Command and NAVICP Philadelphia on issuing and following disposal directives on obsolete aircraft.

Audit Response. We revised the report to include the updated and clarified information from the Navy.

Recommendations, Management Comments, and Audit Response

We recommend that the Commander, Naval Inventory Control Point:

1. Ensure that Naval Inventory Control Point Philadelphia establish controls to promptly identify obsolete NSNs, obsolete applications, and obsolete aircraft; delete the appropriate cataloging and weapon system files; and dispose of all unneeded inventory. The controls should ensure that the programs and methods used instead of the Defense Inactive Item Program are working as intended.

Navy Comments. The Navy concurred and stated that NAVICP Philadelphia procedures will be updated by August 31, 2000, to ensure that the NAVICP requests identification of obsolete aircraft from the Naval Air Systems Command on an annual basis and that personnel follow proper data purge procedures.

2. Take action to remove the obsolete applications and national stock numbers identified by the audit from the weapon system files. To quantify the cost avoidance realized by deleting the national stock numbers, Naval Inventory Control Point Philadelphia personnel should maintain statistics to show how many national stock numbers are deleted and the dollar value of inventory sent to disposal.

Navy Comments. The Navy concurred and stated that all applicable NSNs will be purged by August 31, 2000, and statistics will be maintained as recommended.

Audit Response. Navy comments were responsive to the recommendations. However, the Navy did not comment on the \$6.8 million in potential monetary benefits from eliminating unnecessary cataloging and weapon system files and from reducing inventory. Additionally, the Navy did not quantify the monetary benefits associated with the actions completed August 31, 2000, to delete all obsolete NSNs, obsolete applications, and obsolete aircraft and to dispose of obsolete inventory. Therefore, we request that the Navy provide additional comments on the final report.

Appendix A. Audit Process

Scope

Worked Performed. We reviewed the process that the NAVICP used to identify and remove obsolete NSNs from its weapon system files. As of March 1999, NAVICP weapon system files contained 133,996 reparable NSNs that were associated with 7,938 applications. We reviewed NAVICP standard operating procedures and catalog, procurement, and supply records. The documents we reviewed were dated from August 1992 through April 2000. We interviewed personnel at NAVICP Philadelphia, Naval Air Systems Command, and the Office of the Chief of Naval Operations to assist in determining whether NSNs were obsolete.

DoD-Wide Corporate Level Government Performance and Results Act (GPRA) Coverage. In response to the GPRA, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measure:

FY 2000 DoD Corporate Level Goal 2: Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(00-DoD-2)** **FY 2000 Subordinate Performance Goal 2.3:** Streamline the DoD infrastructure by redesigning the Department's support structure and pursuing business practice reforms. **(00-DoD-2.3)** **FY 2000 Performance Measure 2.3.6:** Disposal of excess National Defense Stockpile inventory and reduction of supply inventory. **(00-DoD-2.3.6)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to the achievement of the following Logistics Functional Area objective and goal:

Objective: Streamline logistics infrastructure. **Goal:** Implement most successful business practices (resulting in reductions of minimally required inventory levels). **(LOG-3.1)**

High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Inventory Management high-risk area.

Methodology

Review of NSNs and Application Data. We reviewed 200 NSNs that the Defense Hotline complainant alleged were obsolete. We also reviewed a June 1995 NAVICP Philadelphia planning memorandum to identify obsolete aircraft. We evaluated the March 1999 weapon system file extract to determine whether obsolete aircraft had been removed from NAVICP files. If an aircraft had not been removed, we identified weapon system applications associated with the aircraft and NSNs associated with the applications to determine the number of NSNs that were potentially obsolete.

Use of Computer-Processed Data. We relied on computer-processed data provided by the NAVICP to determine NSNs associated with the weapon system applications that we identified as obsolete. We did not perform a formal reliability assessment of the computer-processed data. However, to the extent that we reviewed the data, we did not find any errors that would preclude use of the data to meet the audit objective or that would change the conclusions in this report.

Audit Type, Dates, and Standards. We performed this economy and efficiency audit from September 1999 through April 2000 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of management controls over identifying and removing obsolete NSNs and applications from the NAVICP weapon system files. We reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified material management control weaknesses in removing obsolete NSNs and applications from NAVICP weapon system files as defined by DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. Management controls were not adequate to ensure that obsolete NSNs and applications were removed from the NAVICP Philadelphia weapon system files. Recommendations in this report, if implemented, will correct the material weaknesses and could result in potential monetary benefits of \$6.8 million. A copy of the report will be provided to the senior official responsible for management controls in the Navy.

Adequacy of Management's Self-Evaluation. The NAVICP did not identify either obsolete NSNs or obsolete applications as an assessable unit and, therefore, did not identify or report the material management control weaknesses identified by the audit. Since the audit started, the NAVICP established an assessable unit to identify and remove obsolete weapon systems from its database.

Prior Coverage

No prior coverage had been conducted on the subject during the last 5 years.

Appendix B. Report Distribution

Office of the Secretary of Defense

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Department of the Navy

Assistant Secretary of the Navy (Manpower and Reserve Affairs)
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House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International
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Department of the Navy Comments



DEPARTMENT OF THE NAVY
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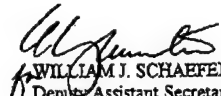
MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT
INSPECTOR GENERAL FOR AUDITING

Subj: DODIG DRAFT REPORT ON ALLEGATIONS TO THE DEFENSE HOTLINE
CONCERNING MANAGEMENT OF OBSOLETE REPARABLE ITEMS
(PROJECT NO. 9LD-8012)

Ref: (a) DODIG Memo of 2 Jun 00

Encl: (1) Department of the Navy Response

In response to reference (a), our comments are provided in enclosure (1). We concur with the recommendations.


WILLIAM J. SCHAEFER
Deputy Assistant Secretary of
the Navy
Planning, Programming and
Resources

Copy to:
NAVJNSGEN (42)
NAVSUP (91E)
ASN(FM&C)

Final Report
Reference

DEPARTMENT OF NAVY RESPONSE TO
FINDINGS AND RECOMMENDATIONS FOR
DODIG DRAFT AUDIT REPORT OF JUNE 2, 2000
ALLEGATIONS TO THE DEFENSE HOTLINE
CONCERNING MANAGEMENT OF OBSOLETE REPARABLE ITEMS
(PROJECT NO. 9LD-8012)

FINDING:

The audit substantiated the Defense Hotline allegation that the Naval Inventory Control Point (NAVICP) weapon system files contained obsolete reparable National Stock Numbers (NSNs), but did not substantiate the claimed cost avoidance. The weapons system files managed by NAVICP Philadelphia contained obsolete reparable NSNs, but the estimated annual cost of approximately \$150 million to maintain those NSNs was significantly overstated. We identified 1,723 obsolete reparable NSNs (532 of the 1,723 NSNs had inventory valued at approximately \$7.3 million) and 180 obsolete weapon system applications associated with 89 obsolete aircraft. However, we did not perform a detailed review of the 180 obsolete weapon system applications to identify all associated NSNs. Therefore, we believe the number of obsolete NSNs in the files is significantly greater. As a result, we calculate DoD could avoid a minimum of \$6.8 million of costs during the 6-year Future Years Defense Program (FYDP), FYs 2001 through 2006, by eliminating unnecessary cataloging and weapons system files and by reducing inventory. The full extent of monetary benefits will be quantifiable after management identifies and takes action to delete all obsolete NSNs, obsolete applications, and obsolete aircraft, as well as disposing of obsolete inventory.

DEPARTMENT OF THE NAVY RESPONSE:

Concur with the basic finding with clarification:

Page 1, Background, paragraph 3 of the draft report states "NAVICP Philadelphia procured material valued at about \$12.5 billion and reported inventory valued at about \$10.4 billion." This should read, "NAVICP Philadelphia procured material valued at about \$664.2 million (Budget Projects 85 and 34), and reported inventory valued at about \$12.3 billion."

Concerning the reference to planning memorandum noted on page 5, Subject: OBSOLETE AIRCRAFT, an updated version of this memorandum was issued on 8 June 2000 (Planning Memorandum #43-00, Subject: STATUS OF NAVAL AIRCRAFT/DEN D031A).

On page 6 of the draft report the Disposal Directives paragraph should stress that the Naval Air Systems Command (NAVAIR) is responsible for issuing directives to NAVICP. The deletion of obsolete aircraft from the NAVICP files starts with the receipt of a disposal directive from NAVAIR.

Revised.

Revised.

RECOMMENDATION:

We recommend that the Commander, Naval Inventory Control Point:

1. Ensure that the Naval Inventory Control Point, Philadelphia, establish controls to promptly identify obsolete NSNs, obsolete applications, and obsolete aircrafts; delete the appropriate cataloging and weapons system files; and dispose of all unneeded inventory of the Defense Inactive Item Program (DIIP) are working as intended.

DEPARTMENT OF THE NAVY RESPONSE:

Concur with the basic recommendation with two clarifications:

First, NAVAIR vice NAVICP is the lead agency to identify obsolete aircraft. Second, although NAVICP tools and methods are used to purge Navy managed obsolete NSNs, the DIIP is still used to process NSNs managed by other services.

Concerning program controls, NAVICP-P Operational Policy and Procedure Instruction #250, "Procedures for Obsolete Data Purge," is the applicable governing directive. This instruction will be updated by 31 August 2000 to ensure that we request identification of obsolete aircraft from NAVAIR Code 3.5 on an annual basis, and that all responsible personnel follow proper data purge procedures.

RECOMMENDATION:

2. Take action to remove the obsolete applications and NSNs identified by the audit from the weapon system files. To quantify the cost avoidance realized by deleting the NSNs, NAVICP-P personnel should maintain statistics to show how many NSNs are deleted and the dollar value of inventory sent to disposal.

DEPARTMENT OF THE NAVY RESPONSE:

Concur. All applicable obsolete NSNs will be purged by 31 August 2000. Statistics will be maintained as recommended.

**APPENDIX A, MANAGEMENT CONTROL PROGRAM
FINDING:**

Adequacy of Management Controls. We identified material management control weaknesses in removing obsolete NSNs and applications from NAVICP weapons system files as defined by DoD Instruction 5010.40, Management Control (MC) Program Procedures," August 28, 1996. Management controls were not adequate to ensure that

obsolete NSNs and applications were removed from the NAVICP Philadelphia weapon system files.

Adequacy of Management's Self-Evaluation. The NAVICP did not identify either obsolete NSNs or obsolete applications as an assessable unit and therefore, did not identify or report the material management control weaknesses identified by the audit.

DEPARTMENT OF THE NAVY RESPONSE:

Concur with clarification. The report failed to adequately address the role that NAVAIR plays in identifying obsolete aircraft. Without the Disposal Directives, NAVICP has not authorization to delete aircraft applications from file. The identification and removal of obsolete weapons systems from NAVICPS's database, identified by the audit and confirmed by NAVAIR, has been established as an assessable unit under the Management Control Program. A management control review was completed on 22 June 2000.

Audit Team Members

The Readiness and Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

Shelton R. Young
Raymond D. Kidd
Tilghman A. Schraden
Terrance P. Wing
John W. Henry
James J. McDermott
David R. Hasz
Paula A. Richardson

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400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

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